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UNCLAS ANKARA 005999

SIPDIS

SENSITIVE

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SUBJECT: SLOW MOVEMENT ON IMF NEGOTIATIONS

REF: ANKARA 5835

1. (Sbu) Summary: According to the IMF Resrep, negotiations with the GOT on a new Standby are moving forward slowly. Though a major step was achieved with agreement on headline 2005 budget numbers, the details of tax reforms and the absence of progress on a banking law remain to be sorted out. Though none of the problems seemed insurmountable, they will take time, and may well require a third mission in November. End Summary.

2. (Sbu) In a phone conversation just before going into a negotiating session, the IMF Resrep provided a general overview of the state of play, promising a fuller brief next week. He said there wasn't much to tell because so much remained to be worked out. Agreement on headline numbers for the 2005 budget--especially the 6.5% primary surplus target (reftel)--had obviously been a significant step forward. Other issues, while not insurmountable, were taking much longer than IMF staff had anticipated. As after the first mission, the Resrep said the GOT had not adequately prepared for the mission.

3. (Sbu) The biggest single area of difficulty is the details of tax reforms. These involve both medium-term measures to rationalize taxation and specific measures for 2005. Since the budget has already been submitted to parliament, the Resrep said that for 2005 the measures would have to be revenue-neutral, which is difficult. The GOT has provided its ideas to Fund staff and staff has responded with its own (unspecified) proposals.

4. (Sbu) Lack of progress on the new banking law (a key structural reform) is also holding up negotiations. A World Bank expert (septel) working with the Fund told us there had been virtually no progress on the banking law during this mission because the bank regulators had proposed new, unacceptable features. Fund staff had to go over the regulators' heads to secure Minister Babacan's agreement to go back to negotiations on the basis of the August draft.

5. (Sbu) In terms of timing and next steps the Resrep said that little had been decided. It was not yet clear whether the mission would leave as planned October 26 or extend its mission. It could also return in November. (The Bank expert told us the joint World Bank-IMF team on the banking law would return the week of November 9.)

6. (Sbu) Without explicitly saying so, the Resrep implied that the mission and GOT had not yet reached agreement on the size of the financing gap and the amount of Fund financing the authorities would request. The Resrep pointed out that, under exceptional access country rules, staff still needed to get definitive authorization from the IMF board to conclude negotiations for a specific amount. The Resrep said that the staff had hoped to go to the board "remotely" while in Turkey, but that now was considering going to the board after returning to Washington.

7. (Sbu) Comment: Though we will have to await next week to get the details, Fund

staff seems to be exercising caution and trying to get things right. Continued USG support for the Fund's efforts could only help at this stage.

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